

Second Public Workshop
on the Development of the
Fiscal Year (FY) 2015-16 Funding Plan for the
Air Quality Improvement Program (AQIP) and
Low-Carbon Transportation
Greenhouse Gas Reduction Fund (GGRF) Investments

PUBLIC WORKSHOP HANDOUT

Public Workshop Date and Location:

Friday, January 23, 2015

10 a.m. to 2 p.m.

California Environmental Protection Agency (Cal/EPA) headquarters building
Coastal Hearing Room, 2nd floor
1001 I Street
Sacramento, California 95814

Link to Workshop Notice:

http://www.arb.ca.gov/msprog/aqip/fundplan/aqip_ggrf_fundingplan_workshop_012315.pdf

Link to Webcast Information:

<http://www.calepa.ca.gov/broadcast/>

Workshop presentation will be posted on the morning of the workshop at:

<http://www.arb.ca.gov/msprog/aqip/aqip.htm>

January 16, 2015

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Introduction

This handout summarizes information on the development of the proposed FY 2015-16 Funding Plan for AQIP and Low-Carbon Transportation GGRF Investments (Low Carbon Transportation Investments) that Air Resources Board (ARB or Board) staff will present at its January 23, 2015 public workshop. In addition to providing staff's initial analysis, this handout lists a number of questions that ARB staff would like to discuss at the public workshop in order to get input to assist with the development of the proposed FY 2015-16 Funding Plan.

This is the second in a series of three planned public workshops ARB staff will hold on the development of the FY 2015-16 Funding Plan. A third workshop will be held in spring 2015 to discuss more detailed staff proposals for the FY 2015-16 AQIP and Low Carbon Transportation appropriations. ARB staff anticipates releasing the proposed FY 2015-16 Funding Plan in May 2015 for Board consideration in June 2015.

Included in this handout is:

- A summary of the Governor's January 2015 Proposed Budget appropriation to ARB for Low Carbon Transportation Investments and for AQIP.
- Initial ARB staff recommendations on funding splits between light-duty vehicle projects and heavy-duty vehicle and equipment projects for the proposed Low Carbon Transportation and AQIP appropriations.
- Information to inform funding decisions on light-duty vehicle and heavy-duty vehicle projects.
- Information related to the requirements for light-duty vehicle projects created by Senate Bill (SB) 1275 (De León, Chapter 530, Statutes of 2014).
- Information on heavy-duty vehicle and equipment investments and the SB 1204 (Lara, Chapter 524, Statutes of 2014) requirements.

Governor's January 2015 Proposed Budget Appropriations for Low Carbon Transportation and AQIP

The Governor's Proposed Budget for FY 2015-16, released on January 9, 2015, contains proposed appropriations to ARB for Low Carbon Transportation Investments and for AQIP. The Governor's proposals are summarized below. ARB staff will use these proposed funding totals to develop the proposed FY 2015-16 Funding Plan for AQIP and Low Carbon Transportation Investments (Funding Plan). However, the appropriations for these programs will not be finalized until later this year when the State Legislature approves and the Governor signs the State budget. If necessary, ARB will update the allocations in the Funding Plan to reflect any changes to these proposed appropriations in final State budget.

1. Governor's January 2015 Proposed Budget Appropriations for the ARB for Low Carbon Transportation Investments from GGFR

The Governor's proposed 2015-16 budget contains \$200 million for ARB Low Carbon Transportation investments, the same funding level contained in the FY 2014-15 State budget.¹ This proposal would continue ARB's Low Carbon Transportation investments from the 2014-15 budget cycle by providing rebates, vouchers, and advanced technology freight demonstrations that accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities. This investment would also support the Administration's goal to deploy 1.5 million zero-emission vehicles (ZEV) in California by 2025, and to reduce petroleum consumption by up to 50 percent by 2030. Of the \$200 million total appropriation, approximately \$197 million would be available for greenhouse gas reducing projects and the remaining \$2.8 million is for State operations.

2. Governor's January 2015 Proposed Budget Appropriation for AQIP

The Governor's proposed budget for AQIP provides \$23 million for AQIP projects.

¹ 2015-16 Governor's Budget Summary <http://www.ebudget.ca.gov/FullBudgetSummary.pdf> (see pages 95 and 96)

Summary of ARB Staff's Draft Proposed Recommendations for FY 2015-16 Project Funding Levels

1. \$200 Million for Low Carbon Transportation

The Governor's \$200 million Low Carbon Transportation budget proposal directs funding to clean cars, trucks, buses and freight technologies that reduce greenhouse gas emissions and provide benefits to disadvantaged communities, but does not specify a funding allocation for light-duty projects versus heavy-duty projects. It instead leaves that level of detail to ARB's Funding Plan public process as was the case in the FY 2014-15 budget.

For FY 2015-16, ARB staff recommends allocating the \$200 million in Low Carbon Transportation Investments as shown in Table 1. These recommended allocations are unchanged from the Board approved FY 2014-15 Funding Plan, and consistent with that plan, at least 50 percent of these funds (at least \$100 million) will be invested in projects that benefit disadvantaged communities.

Table 1: ARB Staff Draft Proposed Recommended Allocation of \$200 million for Low Carbon Transportation*

Light-Duty Projects – SB 1275 – Charge Ahead California Initiative²	\$120 million
Clean Vehicle Rebate Project (CVRP)	\$111 million
Pilot Projects to Benefit Disadvantaged Communities	\$9 million
Heavy-Duty Vehicle and Equipment Projects – SB 1204 – California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program³	\$80 million
Staff seeks comment on potential allocations for the \$80 million in heavy-duty vehicle and equipment project funding. Staff will develop a recommended allocation consistent with the requirements of SB 1204, and share that recommendation at the third Funding Plan public workshop in spring 2015, based on input from this workshop and upcoming public work groups.	

At least 50 percent of project funding will benefit disadvantaged communities.

*Includes approximately \$2.8 million for ARB program administration; \$197 million is available for projects.

Staff's recommended funding allocations would continue to support the development and deployment of advanced low carbon technologies for both the light-duty vehicle and heavy-duty vehicle sectors. However, as discussed later in this handout, demand for funding exceeds the budgeted amount.

² For full text of SB 1275, see: http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_1251-1300/sb_1275_bill_20140921_chaptered.pdf

³ For the full text of SB 1204, see: http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_1201-1250/sb_1204_bill_20140921_chaptered.pdf

At the November 7, 2014 public workshop on the development of the FY 2015-16 Funding Plan, some stakeholders commented that a portion of ARB's funding should be directed to renewable, low carbon fuel production projects. ARB staff considered this recommendation and recognizes the need to expand the availability of renewable fuels, but does not believe ARB funding for projects of this type is appropriate at this time for several reasons. First, funding for such projects has historically been provided through the California Energy Commission's (Energy Commission) Alternative and Renewable Fuel and Vehicle Technology Program, and for FY 2015-16, Energy Commission staff has proposed \$20 million for biofuel production.⁴ Additionally, with demand for vehicle and equipment demonstration and deployment funding exceeding the budgeted amount, ARB staff believes that maximizing funding for such projects should be a priority. In taking this approach, ARB staff expects that the continued expansion of deployment of low carbon transportation vehicles is consistent with the intent of the appropriation and will support the growth in the market for renewable low carbon fuels.

2. \$23 Million for AQIP

ARB staff recommends the following allocations for the \$23 million in AQIP project funding included in the Governor's proposed Budget:

Table 2: ARB Staff Draft Proposed Recommended Allocation of \$23 million for AQIP

AQIP Project Category	Funding Level
CVRP	\$5 million
Hybrid and Zero-Emission Truck and Bus Voucher Incentive Project (HVIP)	\$5 million
Truck Loan Program	\$10 million
Incentives for Low Oxides of Nitrogen (NOx) Trucks	\$2-3 million

The recommended allocations for CVRP, HVIP, and the Truck Loan Program are identical to the AQIP funding levels for these projects in the FY 2014-15 Funding Plan. The CVRP and HVIP funding levels serve as a base allocation to be augmented with Low Carbon Transportation funding based on an analysis of expected demand and other funding needs, while the \$10 million recommended for the Truck Loan Program is expected to meet demand over the next funding cycle.

For FY 2015-16, staff is proposing to include new incentives for trucks certified to the optional low NOx emission standards approved by the Board in December 2013. These optional standards give heavy-duty engine manufacturers the option to certify engines to NOx emission levels that are 50 percent, 75 percent, or 90 percent lower than today's mandatory emission standards. Vehicles with engines certified to these standards are expected to be commercially available within the next several years, and ARB staff

⁴ 2015-16 Investment Plan Update for the Alternative and Renewable Fuel and Vehicle Technology Program, Revised Staff Report, California Energy Commission, CEC-600-2014-009-SD-REV, January 2015 <http://www.energy.ca.gov/2014publications/CEC-600-2014-009/CEC-600-2014-009-SD-REV.pdf>

believes it is important to provide incentive funding in advance of their introduction to the market to encourage manufacturers to begin production of these cleaner vehicles. However, there is a possibility that low NOx certified vehicles may not come to market within the time frame covered by the FY 2015-16 Funding Plan. In response, staff would include contingency provisions to redirect this funding if it is not utilized during the funding cycle and carry it forward into the FY 2016-17 Funding Plan.

Summary of ARB Staff's Draft Proposed Recommendations for Funding Light-Duty Vehicle Projects (SB 1275)

At the workshop, ARB staff plans to discuss:

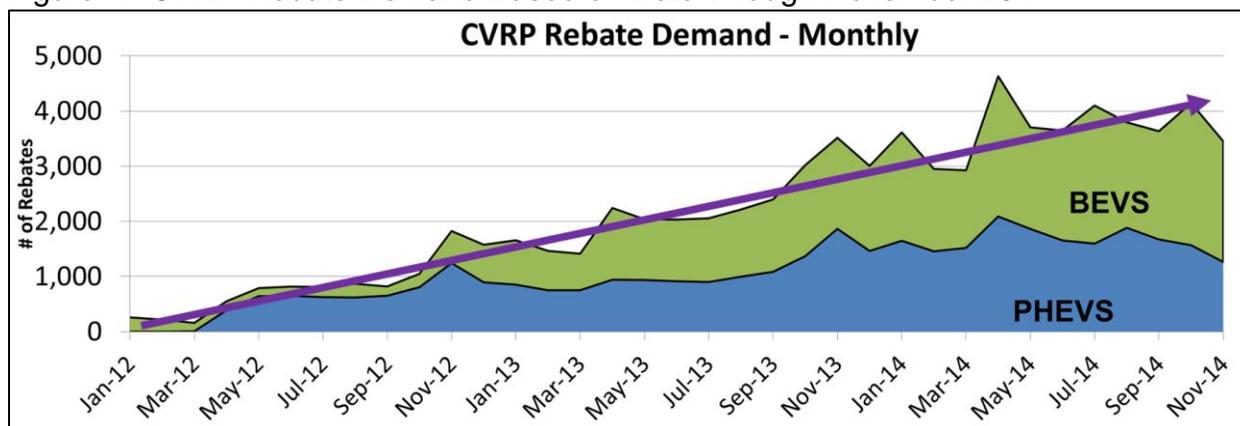
- Updated CVRP rebate demand projections for the remainder of the FY 2014-15 funding cycle and initial CVRP rebate demand projections for the FY 2015-16 funding cycle.
- Initial thoughts on addressing CVRP requirements imposed by SB 1275.
- Initial thoughts on establishing programs that further increase access to electric transportation and direct benefits for disadvantaged, low-income, and moderate-income communities, as required by SB 1275.

Below, ARB staff provides background information on each of these issues, previews the analyses that will be shared at the public workshop, and lists questions that will need to be addressed as it develops the FY 2015-16 Funding Plan.

1. CVRP Demand Projections

CVRP has supported the maturation of a diverse plug-in electric (PEV) vehicle market and has grown significantly since project inception. Since the project's launch in March 2010, rebates for over 85,000 vehicles totaling over \$180 million have been issued. Figure 1 shows the historical CVRP demand growth from January 2012 through November 2014.

Figure 1: CVRP Rebate Demand Based on Data through November 2014



Rebate demand for the remainder of FY 2014-15 and for the upcoming FY 2015-16 has been projected by staff using historical rebate demand data. The projections assume a linear growth in rebate demand, and were adjusted in consideration of historical observed monthly fluctuations in the PEV market. External factors that may affect rebate demand, such as fuel price changes, introduction of new models, vehicle price changes, and availability of vehicles were not included in the projection. Because the PEV market is still in its early stages, it is unknown what affect these factors may have, creating uncertainty in ARB staff's projections. As a result, ARB staff will continue to refine its projections as more data become available and will share updated projections as part of the Funding Plan development.

Staff's initial projections for FY 2014-15 and FY 2015-16 are provided below.

- Projected demand for FY 2014-15: ~52,000 rebates, ~\$115 million.
 - ARB staff estimates that CVRP will stay within its \$120 million budget for FY 2014-15 funding cycle and that no mid-year adjustments will be necessary.
- Projected demand for FY 2015-16: 70,000 rebates, ~\$150-160 million at current vehicle rebate levels, without project modifications.
 - Represents about 35 percent growth from FY 2014-15 demand.
- Project modifications would be required to match the projected demand of \$150-160 million with the draft recommended CVRP budget of \$116 million from AQIP and Low Carbon Transportation funding.

2. CVRP Modifications for the FY 2015-16 Funding Plan Required by SB 1275

Health and Safety Code (HSC) 44258.4(c)(3) requires ARB to take the following actions:

No later than **June 30, 2015**, adopt revisions to the criteria and other requirements for the CVRP, established pursuant to HSC 44274, to ensure the following:

- Rebate levels can be phased down in increments based on cumulative sales levels as determined by ARB.
- Eligibility is limited based on income.
- Consideration of the conversion to prequalification and point-of-sale rebates or other methods to increase participation rates.

ARB will address each of these issues in the FY 2015-16 Funding Plan.

Ensuring Rebates Can Be Phased Down Based on Cumulative Sales

ARB already has the authority to modify CVRP rebate levels as needed and has used this authority on several occasions. For example, the Board lowered per vehicle rebate levels from \$5,000 for ZEVs to \$2,500 and from \$3,000 for a plug-in hybrids to \$1,500 in the FY 2011-12 Funding Plan. Similarly, the Board increased the per vehicle rebate level for fuel cell electric vehicles from \$2,500 to \$5,000 in the approved the FY 2014-15 Funding Plan. Moreover, in the FY 2014-15 Funding Plan, ARB identified milestones that could be used to guide decisions on phasing down rebate levels (see page 40 of FY 2014-15 Funding Plan).⁵

Questions to discuss at the workshop related to ensuring rebates can be phased down:

- Will additional action by ARB be needed to ensure rebates can be phased down or do the metrics and evaluation milestones approved as part of the FY 2014-15 Funding Plan already address this requirement?
- Should ARB consider phasing down rebates starting in the FY 2015-16 funding cycle, or should lower rebate levels be deferred to future years?
- Should lower per vehicle rebates be one of the project changes considered to bridge the difference between the \$150-160 million in projected demand for the FY 2015-16 funding cycle and staff's initial recommended project budget of \$116 million?

Ensuring CVRP Eligibility Is Limited by Income

SB 1275 requires ARB to limit CVRP consumer eligibility by income which could reduce project demand, thereby potentially impacting the amount of funding needed for the FY 2015-16 funding cycle. To provide background for discussion at the public workshop on implementing the requirement to ensure eligibility is limited by income, ARB staff has analyzed CVRP demographic data provided through voluntary surveys of

⁵ http://www.arb.ca.gov/msprog/aqip/fundplan/final_fy1415_aqip_ggrf_fundingplan.pdf (see page 40 of Funding Plan).

CVRP participants.⁶ Figures 2 and 3 below provide information on CVRP participation by household income, both the percentage of participants at various income levels as well as the cumulative percentage of participants below various income thresholds.

Figure 2: Household Income Distribution of CVRP Participant Survey Respondents

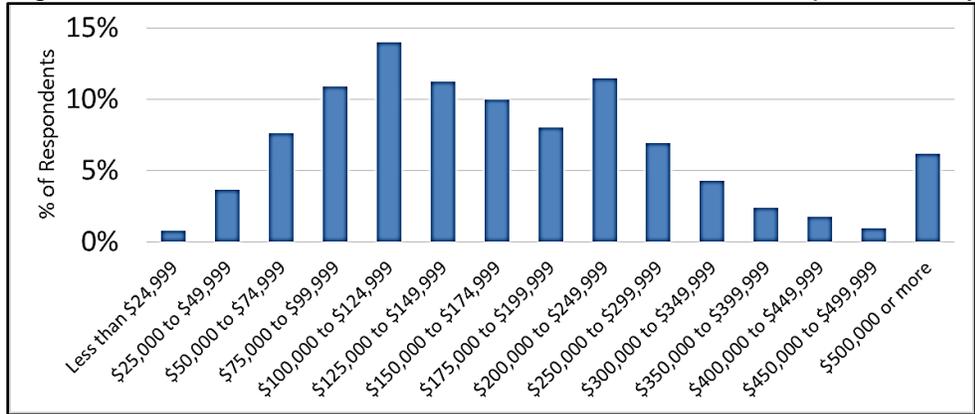
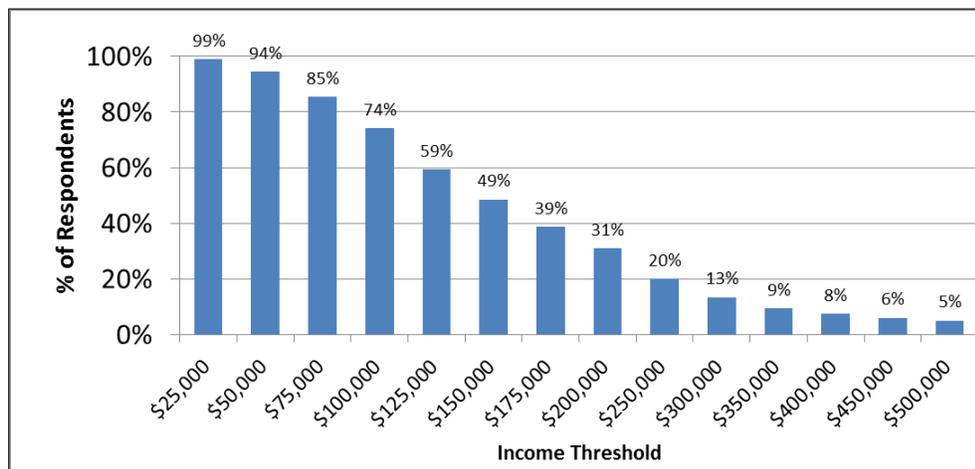


Figure 3: Cumulative Percentage of CVRP Participant Survey Respondents with Household Income Greater than Income Threshold



There is a wide range of household incomes for CVRP participants. For example, about half of the survey respondents indicate that their household income is at or below \$150,000, with significantly smaller number of participants at much higher household incomes. This demographic data will provide a useful first step in analyzing various approaches to limiting eligibility by income.

ARB staff does not have a proposal for how to implement the statutory requirement to ensure that CVRP eligibility is limited by income. Instead, ARB staff would like to discuss the following questions with stakeholders in order to help develop a proposal:

⁶ The Center for Sustainable Energy (CSE), ARB’s grantee that administers CVRP, conducts surveys of CVRP recipients in order to understand trends in the market including the drivers of vehicle purchase. Summary data from these surveys is provided on the CVRP website: <http://energycenter.org/clean-vehicle-rebate-project/survey-dashboard> .

- How should CVRP eligibility be limited by income? Can the project meet this objective in a way that best improves the effectiveness of CVRP and ensures that the project stays within budget?
- Should CVRP eligibility be limited by income differently for households versus individuals?
- What information should be required of applicants to determine if CVRP eligibility is limited appropriately, e.g. gross income from federal tax return?
- How should ARB audit information provided by applicants to ensure compliance with CVRP eligibility limitations based on income?
- If CVRP eligibility limitations based on income are not sufficient to match the projected funding need with the recommended CVRP budget, what additional changes to CVRP should be considered to bridge the difference?

Consideration of the Conversion to Prequalification and Point-of-Sale Rebates or Other Methods to Increase Participation Rates

ARB staff has previously considered transitioning CVRP to a prequalification or point-of-sales model, and continues to evaluate the merits of such changes relative to the current program. However, staff does not believe that the FY 2015-16 funding cycle is the appropriate time to make such a change. The implementation of income eligibility limits as required by SB 1275 will already introduce a significant change to CVRP, and depending on project demand and the budgeted amount, other changes may be needed as well. Staff believes the centralized rebate application process presently employed provides the best approach to implement the income eligibility limit most effectively in its first year in order provide oversight and ability to make adjustments as necessary based on the rollout of any new provisions.

Furthermore, participation in CVRP is high among California ZEV purchasers, and CVRP participants generally rate their experience positively in surveys. Based on data from the California Department of Motor Vehicles, CVRP has supported the purchase of approximately 70 percent of all PEVs in California. Converting CVRP to a point-of-sale model will likely increase participation, putting a further strain on the project. ARB staff will reconsider converting to a prequalification or point-of-sale rebate model in future funding cycles and invites comments at the workshop on this approach.

ARB staff is interested in ideas, however, that further promote the sale of ZEVs and PHEVs at the dealer level, and that will further expand the opportunities for lower income consumers to participate. Staff is seeking concepts and ideas related to dealer tools, incentives, or other approaches that may have a positive impact on the PEV market.

3. Projects to Benefit Disadvantaged Communities

In the FY 2014-15 Funding Plan, ARB established several pilot projects to specifically benefit disadvantaged communities to increase penetration and technology acceptance of advanced clean vehicles in areas most impacted and underserved in California. Last year, \$9 million of Low Carbon Transportation Investments was allocated toward:

- Targeted Car Sharing in Disadvantaged Communities
- Increased Incentives for Public Fleets in Disadvantaged Communities
- Vehicle Retirement and Replacement Plus-up
- Financing Assistance Programs

SB 1275 requires ARB to continue these types of projects that further increase access to and benefits for disadvantaged communities from clean transportation. Because the overall Low Carbon Transportation investments for FY 2015-16 are identical to FY 2014-15 investments, staff is proposing to maintain an equivalent amount of funding for light-duty projects that specifically benefit disadvantaged communities in FY 2015-16.

Questions to discuss at the workshop regarding targeted light-duty projects to benefit disadvantaged communities:

- Should funding be continued for all four of the pilot projects initiated in the FY 2014-15 Funding Plan? If so, should the funding levels be adjusted for a second year?
- Are there other projects ARB should consider funding in this category?

Lastly, SB 1275 includes the deployment of charging infrastructure in multiunit dwellings in disadvantaged communities as a potential project category. The Energy Commission provides significant support for electric vehicle charging infrastructure through its Alternative and Renewable Fuel and Vehicle Technology Program. As part of that program, the Energy Commission is already evaluating ways to improve the deployment of charging infrastructure at multiunit dwellings. ARB and the Energy Commission are coordinating on the implementation of this program.

Summary of ARB Staff's Proposed Recommendations for Funding Heavy-Duty Vehicle and Equipment Projects (SB 1204)

SB 1204, codified in HSC Section 39719.2, established the California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program to be funded with Cap-and-Trade auction proceeds from the Low Carbon Transportation Investments via appropriation from the Legislature. Staff will develop a recommendation to allocate \$80 million in heavy-duty vehicle and equipment funding, consistent with the SB 1204 provisions. As part of its analysis to determine project funding, ARB staff will evaluate

the potential for new projects, and the need to build on the heavy-duty vehicle projects funded with ARB's FY 2014-15 Low Carbon Transportation Investments appropriation including HVIP, Zero-Emission Truck and Bus Pilots, and Advanced Technology Freight Demonstration Projects.

Benefits for Disadvantaged Communities

As noted previously, ARB staff will ensure that at least 50 percent (\$100 million) of ARB's overall Low Carbon Transportation appropriation benefits disadvantaged communities. To meet this target, ARB staff expects that most of the heavy-duty vehicle and equipment projects funded will be specifically directed to provide benefits to disadvantaged communities.

Program Development

At the workshop, staff plans to discuss:

- Status of FY 2014-15 heavy-duty project solicitations, including the Zero-Emission Truck and Bus Pilot Project, Zero-Emission Drayage Demonstration Project, and Multi-Source Facility Project.
- Updated demand projections HVIP for the remainder of the FY 2014-15 funding cycle and initial HVIP voucher demand projections for the FY 2015-16 funding cycle.
- Implementation of the heavy-duty vehicle and equipment eligibility provisions of SB 1204.
- Initial thoughts on creating an annual framework and plan, in consultation with the California Energy Commission, as required by SB 1204.

Below, staff provides background information on each of these issues, and presents questions that staff will address as it develops the FY 2015-16 Funding Plan.

1. Status of FY 2014-15 Heavy-Duty Pilot and Demonstration Solicitations

As of December 31, 2014, ARB has conducted four public workgroup meetings to solicit input from stakeholders on implementation of the heavy-duty pilot and demonstration projects identified in the FY 2014-15 Funding Plan. Staff anticipates releasing solicitations for the Zero-Emission Drayage Truck Demonstration and Multi-Source Facility Demonstration in late January or early February 2015, followed by release of the Zero-Emission Truck and Bus Pilot solicitation in April 2015.

2. HVIP Status and Projected Demand

As of December 31, 2014, HVIP has issued nearly 2,000 vouchers for zero-emission and hybrid trucks and buses since the project began in 2010. Recent demand has been steady, driven primarily by sales of medium heavy-duty hybrid trucks into smaller trucking fleets. Funding remains available from FY 2013-14, with FY 2014-15 funding expected to be available in early 2015. Combined, this is expected to be sufficient to meet demand through the summer of 2015 when FY 2015-16 funding will be available, ensuring that funding will be continuously available through the period. Staff anticipates demand for hybrid trucks will remain steady, with demand slowly increasing for zero-emission trucks and buses through FY 2015-16.

3. Heavy-Duty Vehicle and Equipment Eligibility

In establishing the California Clean Truck, Bus, and Off-Road Vehicle and Equipment Technology Program, SB 1204 includes eligibility for the following projects:

- Technology development, demonstration, pre-commercial pilots, and early commercial deployments of zero- and near-zero emission medium- and heavy-duty truck technology, including projects that help to facilitate clean goods-movement corridors. Until January 1, 2018, no less than 20 percent of funding made available for purposes of this paragraph shall support early commercial deployment of existing zero- and near-zero emission heavy-duty truck technology.
- Zero- and near-zero emission bus technology development, demonstration, pre-commercial pilots, and early commercial deployments, including pilots of multiple vehicles at one site or region.
- Zero- and near-zero emission off-road vehicle and equipment technology development, demonstration, pre-commercial pilots, and early commercial deployments, including vehicles and equipment in the port, agriculture, marine, construction, and rail sectors.
- Purchase incentives, which may include point-of-sale, for commercially available zero- and near-zero emission truck, bus, and off-road vehicle and equipment technologies and fueling infrastructure to support early market deployments of alternative technologies and to increase manufacturer volumes and accelerate market acceptance.
- Projects that support greater commercial motor vehicle and equipment freight efficiency and greenhouse gas emissions reductions, including, but not limited to, advanced intelligent transportation systems, autonomous vehicles, and other freight information and operations technologies.

At the workshop, staff will seek input on the extent to which continuation of projects funded in the FY 2014-15 Funding Plan would meet the provisions listed above, and if new projects meeting the above eligibility should be included in the FY 2015-16 Funding Plan.

4. Annual Framework and Plan

SB 1204 requires ARB to develop an annual framework and plan to do all of the following:

- Articulate an overarching vision for technology development, demonstration, pre-commercial pilot, and early commercial deployments, with a focus on moving technologies through the commercialization process.
- Outline technology categories and performance criteria for technologies and applications that may be considered for funding pursuant to this section. This shall include technologies for medium- and heavy-duty trucking, including, but not limited to, vocational trucks, short-haul and long-haul trucks, buses, and off-road vehicles and equipment, including, but not limited to, port equipment, agricultural equipment, construction equipment, marine equipment, and rail equipment.
- Describe the roles of the relevant agencies and the process for coordination.

At the workshop, staff will review the long-term vision and metrics of success for heavy-duty projects described in the FY 2014-15 Funding Plan, and seek input on updates or new information that should be considered in the FY 2015-16 Funding Plan. Staff also invites comments on establishing a data collection and analysis component to support the evaluation of heavy-duty vehicle and equipment projects funded in FY 2015-16.